

**COUNTY OF BERNALILLO NEW MEXICO**  
**Management's Discussion and Analysis**  
**June 30, 2005**

As management of the County of Bernalillo (County), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-v of this report.

**Financial Highlights**

- The government-wide assets of the County exceed its liabilities as of June 30, 2005 by \$370,440,039 (net assets) for the primary government. Of this amount, \$259,806,252 is invested in capital assets, net of related debt. Of the remaining balance, \$49,216,804 is restricted for specific purposes and \$61,416,983 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's total net assets increased by \$19,553,644 or by 5.8% during the fiscal year from \$350,886,395 (\$350,262,012 primary government and \$624,383 component unit) in FY04 to \$370,440,039 in FY05. In FY05, the County's only component unit, Redevelopment Corporation was dissolved and is reported as an enterprise fund (El Centro Familiar) in the County's financial statements.
- As of June 30, 2005, the County's governmental activities and the business-type activities have net assets of \$365,264,649 and \$5,175,390 respectively.
- The fund balance in the County's general fund increased \$24,375,732 from \$47,932,951 in FY04 to \$72,308,683, a 50.8% increase. Of this amount, \$38,279,946 or 53% of the general fund is for the DFA required reserved and \$26,938,653 or 37% for subsequent year's expenditures.
- The County was able to maintain adequate reserves in the amount of \$38,279,946 as required by the State of New Mexico Department of Finance and Administration, Local Government Division – 3/12 of the General Fund Budget for FY06.
- During the year, the County sold \$3,029,000 of General Obligation Bonds. \$1,714,000 for roads and \$1,315,000 for storm drains.
- The County has \$321,626,474 in available bonding capacity or 79.59% of allowable bonding capacity per the New Mexico State Constitution (see page 146).
- The County property valuations increased 4.57% from \$9.63 billion in FY04 to \$10.10 billion in FY05 (see page 140).

The County maintained its Aa1 rating with Moody's Investors Service, Inc. and AA+ for Standard & Poor's Rating Service.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. For example, property taxes are recognized as revenues in the year for which they are levied.

The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County's net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguished functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (Business-type activities). The governmental activities of the County include general government, public works, public safety, health and welfare, and culture and recreation. The Business-type activities of the County include Solid Waste, Bernalillo Housing Authority, Seybold Village Handicapped Project, the Regional Juvenile Detention Center, and El Centro Familiar. The government-wide financial statements can be found on pages 25-26 of this report.

**Fund financial statement.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term

inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. For this purpose, the County considers revenues to be available if they are collected within 60 days of the current fiscal period. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

In addition to the General fund, the County maintains forty-eight other individual governmental funds of which eighteen are classified as Special Revenue funds, thirteen are classified as Debt Service funds, and seventeen are classified as Capital Projects funds. Information for the General fund and the TRAN Debt Service fund, both of which are considered to be major funds, is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its General fund. A budgetary comparison statement for the General fund is presented on page 31. In addition, the County adopts an annual budget for other non-major funds. A budgetary comparison statement is presented in the aggregate and individually for all those funds.

The basic governmental fund financial statements can be found on pages 27-31 of this report.

***Proprietary funds.*** The County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *Business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for Solid Waste, Housing Authority, Seybold Village Handicapped Project, Regional Juvenile Detention Center, and the El Centro Familiar. An *Internal service fund* is used to account for operations that provide services to other departments or agencies of the County on a cost-reimbursement basis. The County's internal service fund is the Risk Management fund, which is used to account for its risk management activities. Because the services provided by the Risk Management fund predominantly benefit governmental rather than business-type functions, this fund is included within *governmental activities* in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 32-34 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found on page 35 of this report.

***Notes to the financial statements.*** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 36-65 of this report.

**Other information.** The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the Notes to the Financial Statements. Combining and individual fund statements and schedules can be found on pages 66-114 of this report.

### Government-wide Financial Analysis

This is the fourth year that the County has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management’s Discussion and Analysis (MD&A) – for State and Local Governments. This is the third year that the County has included comparative analysis of government-wide data for the MD&A.

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. The County’s governmental-wide net assets exceed liabilities by \$370,440,039 for the fiscal year ending June 30, 2005. By far the largest portion of the County’s net assets (70%) reflects its investment in capital assets (e.g., infrastructure, land, buildings, machinery, and equipment) less any debt, used to acquire those assets, that is still outstanding. In the prior year, the County’s investment in capital assets was 75.8% of net assets. The County uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the County’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### County of Bernalillo Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b>Assets:</b>						
Current and other assets	\$234,517,129	\$220,550,839	\$ 2,368,950	\$1,975,886	\$236,886,079	\$220,526,725
Capital assets	481,366,127	478,864,013	5,417,840	2,894,514	486,783,967	481,758,527
Total assets	<u>715,883,256</u>	<u>699,414,852</u>	<u>7,786,790</u>	<u>4,870,400</u>	<u>723,670,046</u>	<u>704,285,252</u>
<b>Liabilities:</b>						
Long-term liabilities	269,724,477	274,714,085	1,986,294	163,873	271,710,771	274,877,958
Other liabilities	80,894,130	78,498,064	625,106	647,218	81,519,236	79,145,282
Total liabilities	<u>350,618,607</u>	<u>353,212,149</u>	<u>2,611,400</u>	<u>811,091</u>	<u>353,230,007</u>	<u>354,023,240</u>
<b>Net Assets:</b>						
Invested in capital assets, net of related Debt	256,203,651	262,781,593	3,602,601	2,894,514	259,806,252	265,676,107
Restricted	49,216,804	47,164,322	-	-	49,216,804	47,164,322
Unrestricted	59,844,194	36,256,788	1,572,789	1,164,795	61,416,983	37,421,583
Total net assets	<u>\$365,264,649</u>	<u>\$346,202,703</u>	<u>\$5,175,390</u>	<u>\$4,059,309</u>	<u>\$370,440,039</u>	<u>\$350,262,012</u>

Restricted net assets in the amount of \$49,216,804 represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$61,416,983 may be used to meet the government's ongoing obligations to citizens and creditors.

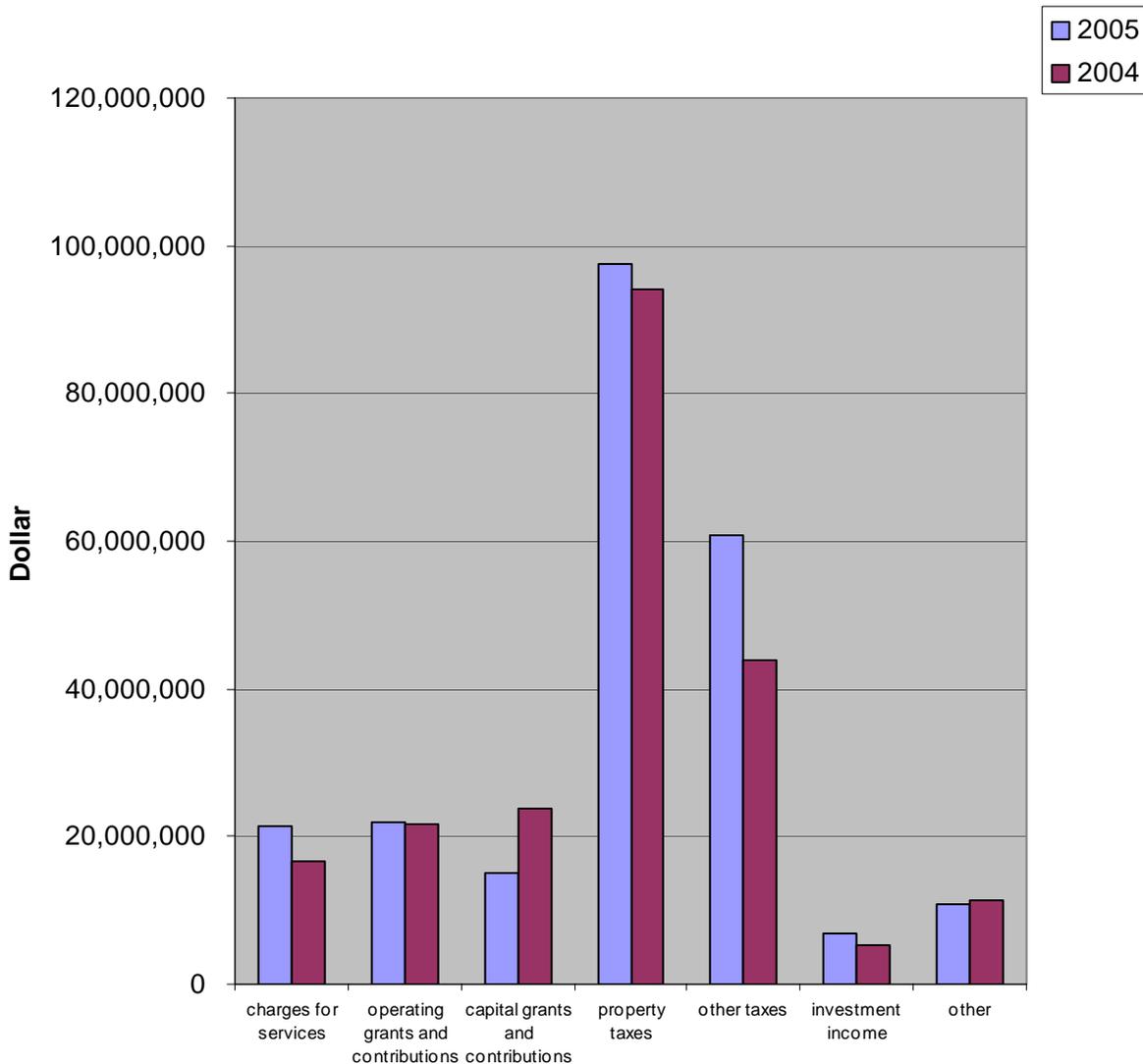
At the end of the current fiscal year, the County is able to report positive balances in all three categories of net assets, and for the government as a whole, as well as for its separate governmental and business-type activities.

**Governmental activities.** Governmental activities during the year increased the County's net assets by \$19,292,259 as compared to \$19,871,845 in FY04.

### County of Bernalillo's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:						
Program revenues:						
Charges for services	\$21,396,030	\$ 16,687,882	\$ 4,903,003	\$ 5,945,501	\$26,299,033	\$ 22,633,383
Operating grants and contributions	21,825,526	21,715,925	139,226	148,490	21,964,752	21,864,415
Capital grants and contributions	15,059,440	23,844,677	-	-	15,059,440	23,844,677
General revenues:						
Property taxes	97,468,762	94,043,897	-	-	97,468,762	94,043,897
Other taxes	60,843,367	43,833,169	-	-	60,843,367	43,833,169
Investment income	6,952,564	5,184,585	9,022	5,175	6,961,586	5,189,760
Grants and contributions not restricted to specific programs	-	-	558,439	708,896	558,439	708,896
Other	10,845,578	11,332,291	119,688	119,379	10,965,266	11,451,670
Total revenues	<u>234,391,267</u>	<u>216,642,426</u>	<u>5,729,378</u>	<u>6,927,441</u>	<u>240,120,645</u>	<u>223,569,867</u>
Expenses:						
General government	45,288,911	37,501,192	-	-	45,288,911	37,501,192
Public works	34,986,816	32,294,831	-	-	34,986,916	32,294,831
Public safety	89,268,696	82,328,864	-	-	89,268,696	82,328,864
Health and welfare	19,266,114	18,785,416	-	-	19,266,114	18,785,416
Culture and recreation	11,411,012	11,409,199	-	-	11,411,012	11,409,199
Interest on long-term debt	15,077,459	14,651,079	-	-	15,077,459	14,651,079
Solid Waste	-	-	3,255,586	3,353,335	3,255,586	3,353,335
Housing Authority	-	-	1,036,213	1,672,735	1,036,213	1,672,735
Seybold Village	-	-	145,955	126,954	145,955	126,954
Juvenile Detention Center	-	-	1,330,647	1,275,350	1,330,647	1,275,350
El Centro Familiar	-	-	382,877	-	382,877	-
Total expenses	<u>215,299,008</u>	<u>196,970,581</u>	<u>6,151,278</u>	<u>6,428,374</u>	<u>221,450,286</u>	<u>203,398,955</u>
Increase in net assets before transfers	19,092,259	19,671,845	(421,900)	499,067	18,670,359	20,170,912
Transfers in (out)	200,000	200,000	(200,000)	(200,000)	-	-
Capital contributions	-	-	1,113,598	-	1,113,598	-
Increase in net assets	<u>19,292,259</u>	<u>19,871,845</u>	<u>491,698</u>	<u>299,067</u>	<u>19,783,957</u>	<u>20,170,912</u>
Net assets –beginning	346,202,703	325,034,598	4,059,309	3,931,578	350,262,012	328,966,176
Reclassified	(230,313)	1,296,260	624,383	(171,336)	394,070	1,124,924
Net assets – beginning as restated	<u>345,972,390</u>	<u>326,330,858</u>	<u>4,683,692</u>	<u>3,760,242</u>	<u>350,656,082</u>	<u>330,091,100</u>
Net assets – ending	<u>\$ 365,264,649</u>	<u>\$ 346,202,703</u>	<u>\$ 5,175,390</u>	<u>\$ 4,059,309</u>	<u>\$ 370,440,039</u>	<u>\$ 350,262,012</u>

### Revenues By Source - Governmental Activities

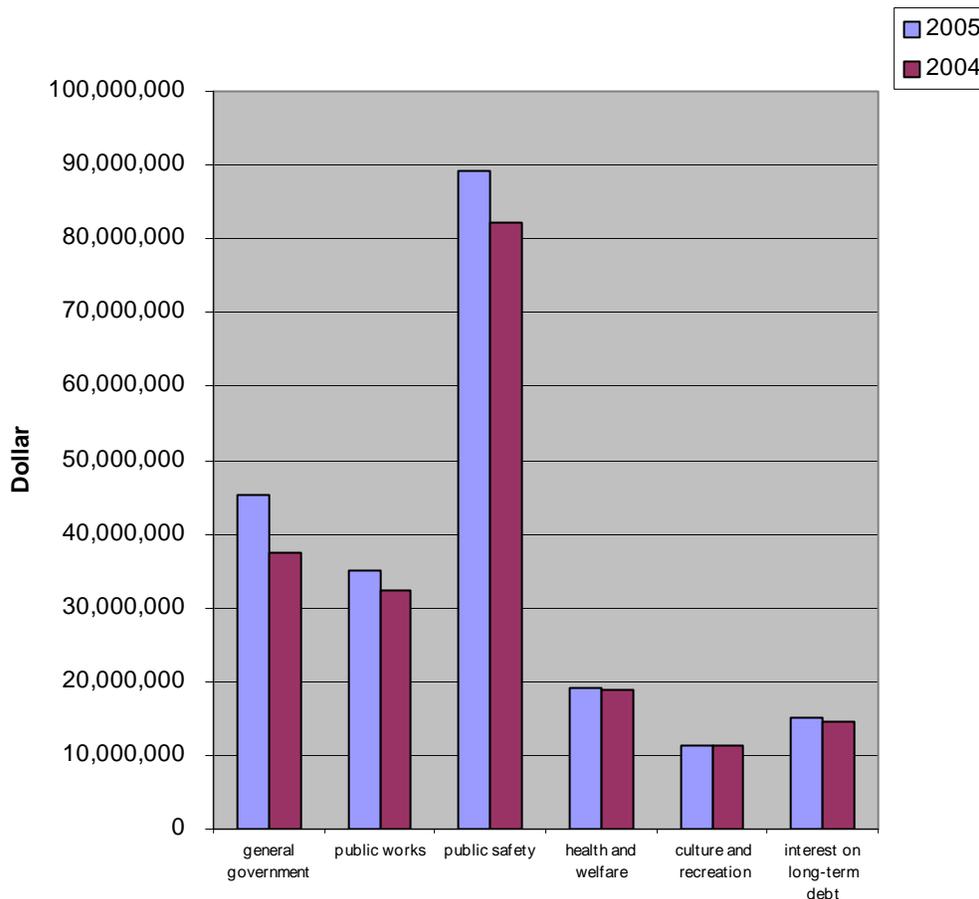


Governmental Activities revenues increased by \$17.8 million from \$216.6 to \$234.4, an increase of 8.2%. Key elements in the growth of governmental activities revenues are as follows:

- General revenues other taxes increased \$17 million from \$43.8 million in FY04 to \$60.8 million in FY05, a 38.8% increase. The increase in other taxes accounts for 54.47% of the total increase of revenues during the year for all Governmental Activities and is attributed to an increase in the County's gross receipt tax rate from 5.375% to 5.5625% that went into effect January 1, 2005.
- Program revenues Charges for Services increased by \$4.7 million from \$16.7 million in FY04 to \$21.4 in FY05, a 28.1% increase. The increase in Charges for Services accounts for 15.2% of the total increase of revenues during the year for all Governmental Activities. The increase is attributed in part to the fees for services for the new Regional Correction Center special revenue fund in the amount \$4.6 million.

- Program revenues Capital Grants and Contributions decreased by \$8.8 million from \$23.8 million in FY04 to \$15.0 million in FY05, a 36.9% increase. There was a significant decrease in road construction project revenues from \$9.0 million in FY04 to \$3.6 million in FY05. In addition, there was a decrease in revenues in the Valley Utility Water Waste/Water project from \$10.2 million to \$7.7 million.
- Property taxes revenue increased \$3.4 million from \$94.0 million in FY04 to \$97.4 million in FY05, a 3.6% increase. The increase in property tax revenue accounts for 11.3% of the total increase of revenues during the year and is attributed to three different factors. Taxable property valuation within the County increased 4.57% to \$10.1 billion or by \$458 million from the previous year. In FY05, the County’s operational residential mill levy rate increased slightly from 7.007 to 7.031. Another contributing factor is the increase in the current property tax collection rate from 95.40% to 95.71% in FY05.

**Expenses By Source - Governmental Activities**

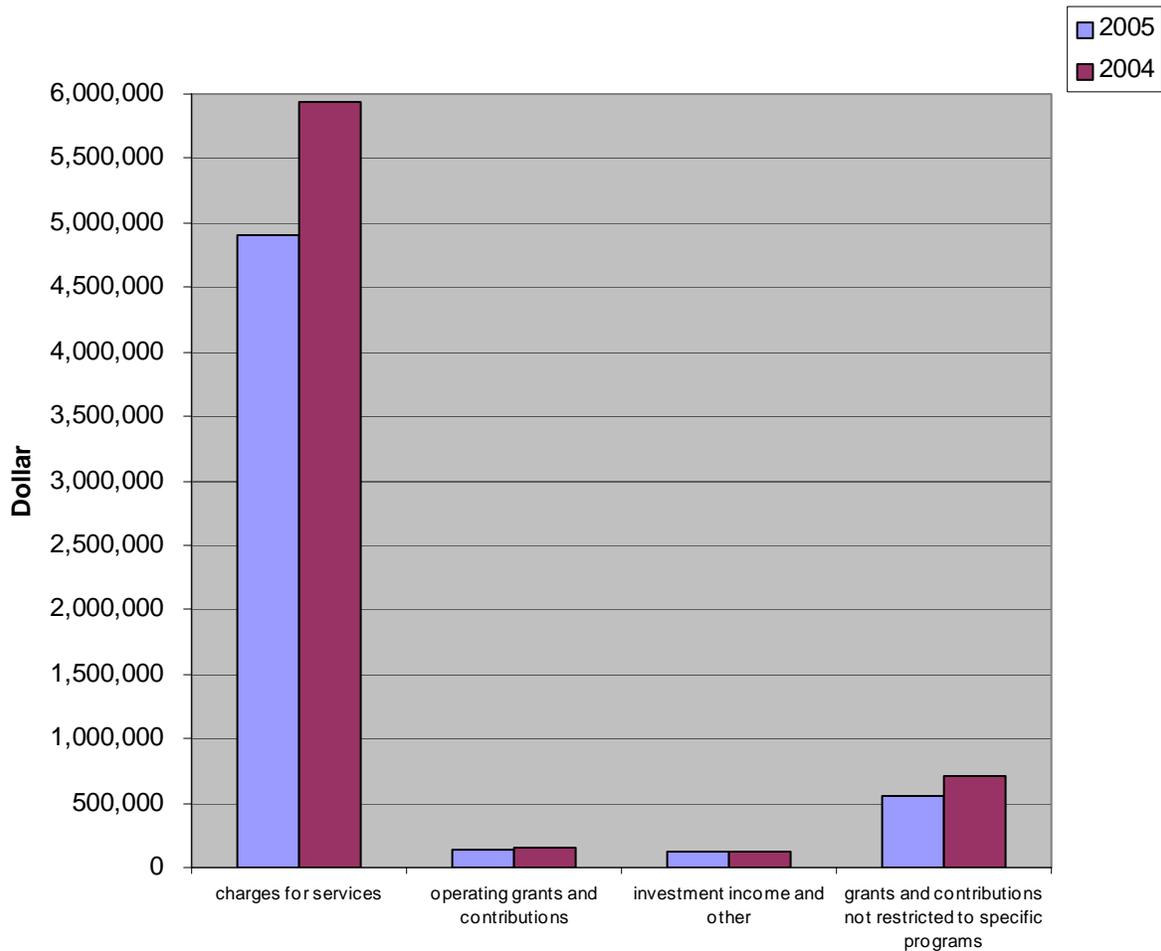


Governmental activities expenses increased by \$18.4 million from \$196.9 million to \$215.3, a 9.3% increase. Key elements in the changes of governmental activities expenses other than an increase in salary and related fringe benefit costs due to a 4.5% across the board salary increase and a 5% increase in healthcare premium benefits for County employees are as follows:

- General government expenses increased by \$7.7 million from \$37.5 million to \$45.2, a 20.5% increase. The increase in general government expenses accounts for 41.8% of the total increase of revenues during the year for all Governmental Activities. The significant portion of the increase was attributed to the increase in cost in the valuation fund from \$2,502,346 in FY04 to \$4,079,362 in FY05. In FY05, the County Assessor performed a reappraisal of property valuations that increased operating cost in the valuation fund. There was \$394,910 million loss on the disposition of a capital asset in the General government category. Significantly higher cost were incurred in FY05, for a payment of \$776,983 for Journal Pavilion rent proceeds to service the debt service on the Series 1997 Debt Service fund. Other increases were for a new human resources/payroll and budget system, \$256,918, property insurance cost of \$253,582, election ballots costs of \$225,000 and fleet replacement cost of \$224,986.
- Public safety expenses increased by \$7 million from \$82.3 million to \$89.3 million, an 8.5% increase. The increase in general government expenses accounts for 40.1% of the total increase of revenues during the year for all Governmental Activities. The increase is attributed in part to the operating cost for the new Regional Correction Center in the amount \$4.6 million and to increase cost of \$1.8 million associated with the operating of the Albuquerque/Bernalillo County Metropolitan Detention Center.

**Business-type activities.** Business-type activities net assets increased by \$1,116,081 during the current fiscal year. During the year, the \$1,063,220 in capital assets pertaining to the east mountain transfer station were transferred from the County's Governmental Activities where the assets were originally procured to the Solid Waste Enterprise Fund where the assets are used in the operation of the Solid Waste Department. Also during the year, El Centro Familiar (previously known as the Redevelopment Corporation), a former component unit of the County was legally dissolved and was reclassified as a Business-type Activity Enterprise fund in the County's financial statement which resulted in an increase in the Business-type activities net asset of \$561,135. The Solid Waste fund, the Housing Authority, Seybold Village Handicapped Project fund, Regional Juvenile Detention Center, and El Centro Familiar incurred losses of \$66,040, \$556,390, \$114,050, \$85,456, and \$178,607 respectively before capital contributions and operating transfers out. These decreases represents the degree to which ongoing program expense have outstripped ongoing program revenues. Overall the Business-type activities experienced a \$1,000,543 operating loss (program revenues less expenses) before non-operating revenues of \$578,643.

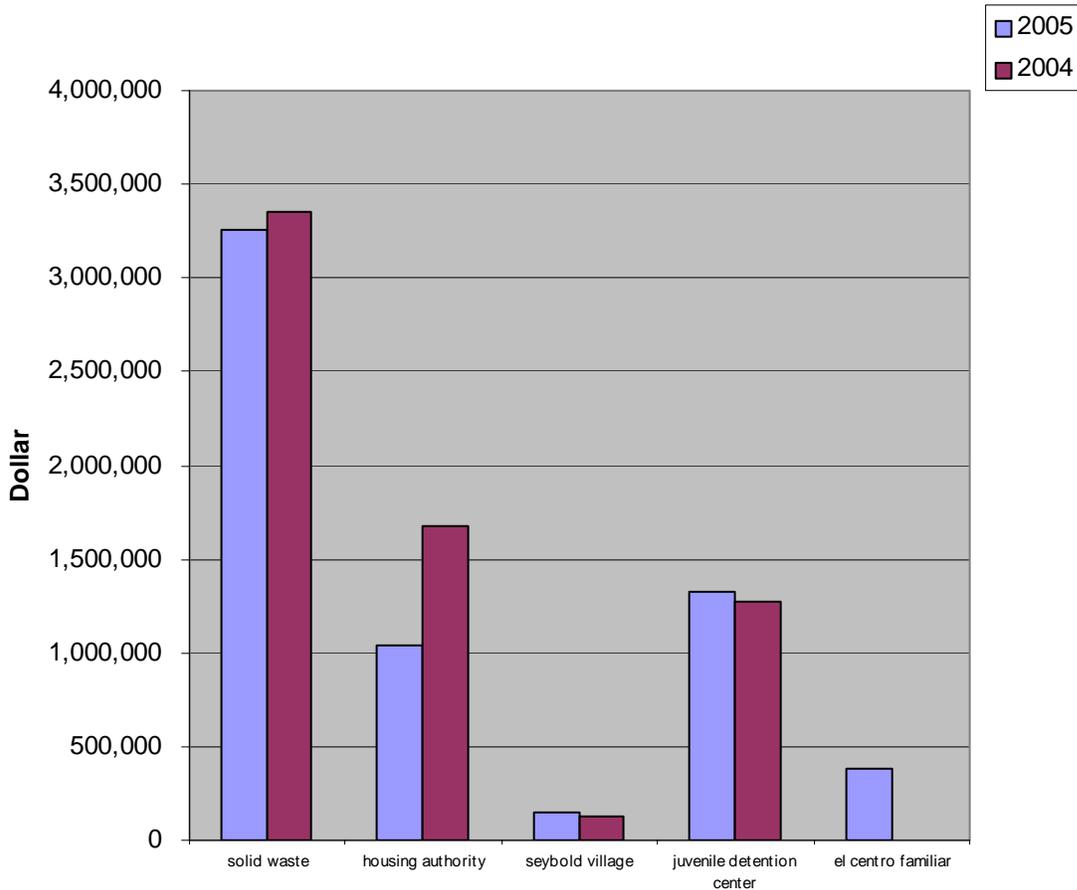
### Revenues By Source - Business-type Activities



Business-type activities revenue decreased from \$6.9 million in FY04 to \$5.7 million in FY05, a 21.0% decrease. A key element in the decline of business-type activities revenues is as follows:

- Revenue Program charges for services decreased from \$5.9 million in FY04 to \$4.9 million in FY05, a 20.4% decrease. The decrease was attributed to a change in the accounting for administrative and service fee revenues and expenses that were previously recorded in the County's Housing Authority fund and are now only included in the Section 8 Housing Voucher fund.

### Expenses By Source - Business-type Activities



Business-type activities expenses decreased from \$6.4 million to \$6.1 in FY05, a 4.6% decrease. Key elements in the decline of business-type activities expenses are as follows:

- Expenses in the Housing Authority decreased from \$1.6 million to \$1.0 million in FY05, a 37.5% decrease. The decrease was attributed in a change in the accounting for administrative and service fee revenues and expenses that were previously recorded in the County’s Housing Authority fund and are now only included in the Section 8 Housing Voucher fund.
- Expenses in the Solid Waste fund decreased slightly from \$3.3 million to \$3.2 million in FY05, a 3.0% decrease attributed to a 10% decrease in contractual services.
- In FY05, El Centro Familiar was reclassified from a component unit to a Business-type Activities Enterprise Fund. This resulted in an increase in Business-type Activities expenses of \$274,371 in FY05 as compared to FY04.

## Financial Analysis of the County's Funds

**Governmental Funds.** The focus of the County's governmental funds is to provide information on near-term inflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

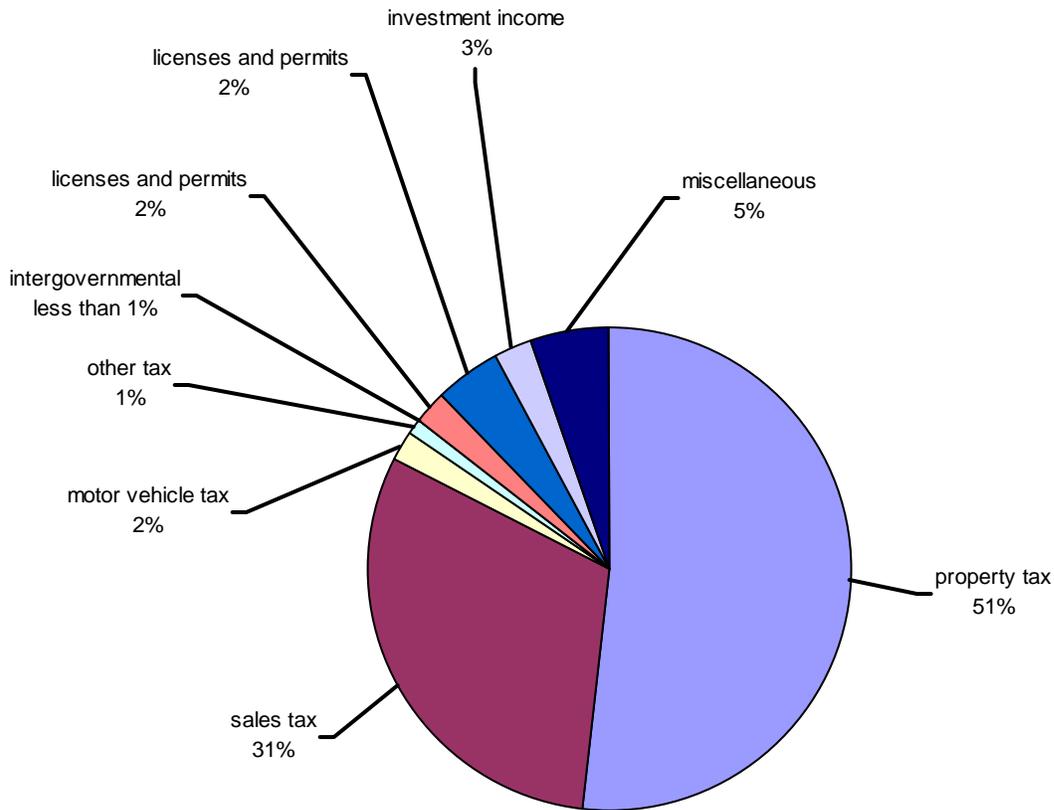
As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$159,654,351. Approximately 46.1% of this total, \$73,673,617 constitutes unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) to DFA 3/12 reserve requirement \$38,279,946, 2) encumbrances to liquidate contracts and purchase orders of the prior period \$25,744,514, 3) to pay debt service \$19,806,795, and 4), for a variety of other restricted purposes \$2,149,479.

**General Fund.** The fund balance of the County's general fund increased by \$24,375,732 during the current fiscal year. Key factors in this growth are based on the increase in local taxes from the previous year combined with less than expected incurred expenditures during the year.

General Fund revenues increased by \$20.3 million from \$147.7 million to \$168, an increase of 13.7%. Key elements in the growth of General Fund revenues are as follows:

- Gross receipt tax revenue in the General Fund increased by \$16.4 million or by 46.4% from \$35.3 million to \$51.7 million in FY05. The increase in gross receipt tax revenue accounts for 80.1% of the total increase of revenues during the year for the General Fund and is attributed to an increase in the County's gross receipt tax rate from 5.375% to 5.5625% that went into effect January 1, 2005.
- Property taxes revenue increased by \$3.8 million or by 4.58% from \$82.9 million in FY04 to \$86.7 million in FY05. The increase in property tax revenue accounted for 19.7% of the increase in total revenues during the year and is attributed to three different factors. Taxable property valuation within the County increased 4.57% to \$10.1 billion or by \$458 million from the previous year. In FY04, the County's operational residential mill levy rate increased slightly from 7.007 to 7.031. Another contributing factor is the increase in the current property tax collection rate from 95.40% to 95.71% in FY05.

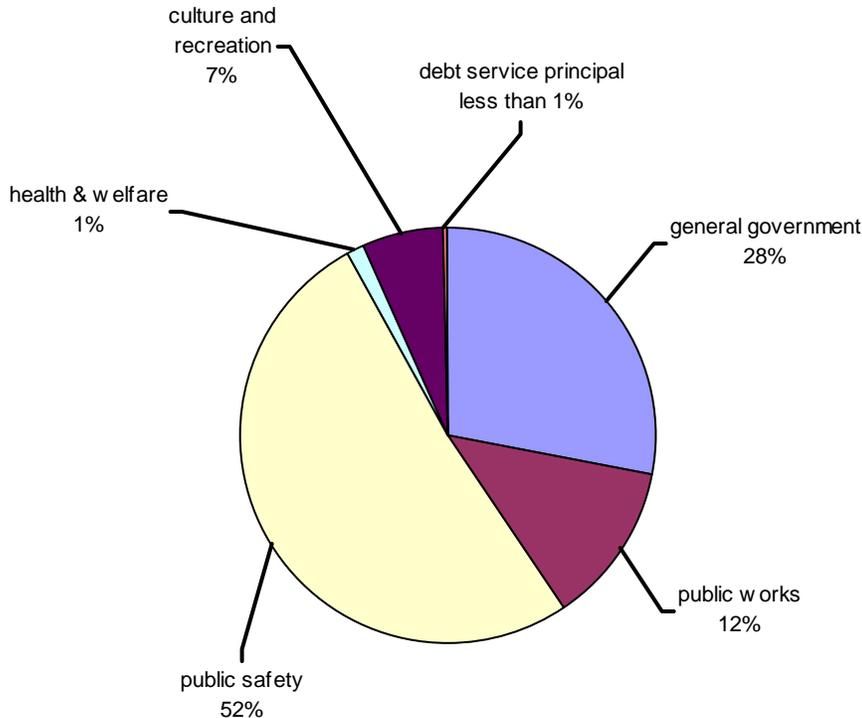
### Revenues by Source - General Fund



In FY05, General Fund expenditures increased \$10.7 million from \$119.7 million to \$130.4 million, an 8.9% increase. Key elements in the increase in General Fund expenditures other than an increase in salary and related fringe benefit costs due to a 4.5% across the board salary increase for County employees are as follows:

- General Government expenditures increased by \$4.4 million from \$32.3 million in FY04 to \$36.7 million in FY05, a 13.6% increase. The increase in general government expenditures accounted for 41.1% of the increase in total General Fund expenditures during the year. The significant portion of the increase was attributed to the increase in cost in the valuation fund from \$2,502,346 in FY04 to \$4,079,362 in FY05. Also, in FY05 proceeds from the collection of rent for the Journal Pavilion were received in the County's General fund and then expensed to Series 1997 Debt Service Fund in the amount of \$776,983. Other increases were attributed to cost of \$256,918 associated with the purchase of a human resources/payroll and budget system, property insurance increase of \$253,582, election ballots costs of \$225,000 and an increase in fleet replacement cost of \$224,986.

## Expenditures by Source - General Fund



- Public Safety expenditures increased by \$3.7 million from \$63.2 million in FY04 to \$66.9 million in FY05, a 5.9% increase. The increase in public safety expenditures accounted for 34.6% of the increase in total General Fund expenditures during the year and is attributed to in part to increase cost of \$1.8 million associated with the operations of the Albuquerque/Bernalillo County Metropolitan Detention Center expenses.
- Public Works expenditures increased by \$2.1 million from \$14.1 million in FY04 to \$16.2 million in FY05, a 14.9% increase. The increase in public works expenditures accounted for 19.6% of the increase in total General Fund expenditures during the year and is attributed to in part to the reorganization of costs for phone and data lines expenditures in the amount of \$663,255 from the Information Technology Department cost center in the general government function to the Facility Management Department Computer Automation cost center in the public works function. Staffing was increased in the Fleet Vehicle Maintenance program (with positions from other departments) from 15 budgeted full-time equivalents (FTE) to 27 FTEs which increase salary cost in that program by \$326,282. There was also an increase in Wright Express fuel cost of \$226,586 from \$874,246 in FY04 to \$1,100,832 in FY05.

Additional comparison of General, Special Revenue, and Debt Service Fund revenue and expenditures of prior years can be found in the statistical section of this report.

**Special Revenue funds.** As of the end of fiscal year 2005, the County's Special Revenue funds reported combined ending fund balances \$8,793,154, a decrease of \$534,279 in comparison with fiscal year 2004. \$335,556 of the fund balance is reserved for advances to other funds, \$2,966,620 is reserved for encumbrances, and the remaining fund balance of \$5,490,978 is unreserved undesignated.

**Debt Service funds.** As of the end of fiscal year 2005, the County's Debt Service funds reported combined ending fund balances \$19,806,795, an increase of \$337,799 in comparison with fiscal year 2004. All of the fund balance is reserved to pay debt service.

**Capital Projects funds.** As of the end of fiscal year 2005, the County's Capital Project funds reported combined ending fund balances \$58,745,719 a decrease of \$12,297,633 in comparison with fiscal year 2004. During the year as capital projects are completed, the cost of the projects are reclassified as capital assets and removed from the capital project fund. \$17,501,733 of the fund balance is reserved for encumbrances and the remaining fund balance of \$41,243,986 is unreserved undesignated.

**Proprietary funds.** The County proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Other factors concerning the finances of these funds have been discussed in the business-type activities section of the MD&A.

#### **Budgetary Highlights Original Budget – Final Budget Comparison.**

**General Fund.** General fund original budgeted revenues increased \$18.7 million or by 13.6% from \$137.4 million to \$156.1 million (final). General fund original budgeted expenditures increased \$20.0 million or by 14.5% from \$138.1 million to \$158.1 million (final). Significant changes between the original budget and the final amended budget are summarized as follows:

- The original budget for Gross Receipts Tax revenue increased \$12.5 million from \$34.4 million to \$46.9 million (final). The change in the original budget was attributed an increase in the County's gross receipt tax rate on January 1, 2005 from 5.37% to 5.5625%.
- The original budget for Fees for Services revenue was increased \$388,525 from \$6.72 million to \$7.11 million. During the year, a budget classification was made to increase Clerk recording and filing fees based on a higher than expected recording and document filing activity that was the result of an improvement in the local area economy.
- The original budget for Miscellaneous revenue was increased \$5.8 million from \$1.4 million to \$7.2 million. In FY04 the County took over the management of the food contract for the Metropolitan Detention Center (MDC). The revenue budget was increased \$4.695 million to establish a budget for food costs incurred by the County on behalf of MDC that are reimbursed by the City of Albuquerque.
- The Finance and Administration original expenditure budget increased \$1.7 million from \$6.2 million to \$7.9 million. In FY04 proceeds from the collection of rent for the Journal Pavilion were

recorded in the County Generals fund and then transferred to Series 1997 Debt Service Fund. In FY05 the rent proceeds were disbursed or paid to 1997 Debt Service Fund by check in the amount of \$776,983. Another changes include an increase in fleet vehicle replacement costs of \$324,231, and previously unbudgeted Law Enforcement Officer claims fund amount of \$654,169. There were some other minor budget adjustments to personal costs during the year.

- The General County original expenditure budget decreased \$.9 million from \$16.2 million to \$15.3 million. The significant change in the budget was to decrease budgeted non-encumbered carryovers in the amount of \$2.6 million from the previous year that were no longer needed for fiscal year 2005 operations. This decrease was partly offset by a budget increase of \$1.5 million to fund the new Human Resources/Payroll and GIS and budget software systems. There were various budget adjustments for salary, contractual, and other operating expenditures that netted out the remaining balance difference.
- The County Clerk original expenditure budget increased \$.9 million from \$3.7 million to \$4.6 million. Budget adjustments were made to increase general election expense, poll workers salary expense, temporary part-time salary cost and increased ballot cost.
- The Other expenditure budget increased \$7.4 million from \$1.5 million to \$8.9 million. The significant portion of the \$7.4 million increase was to set aside funds for a new enterprise resource planning and financial management system with scheduled implementation to start in late 2006 and funding for disaster recovery.
- The Public Works original expenditure budget increased \$3.8 million from \$17.0 to \$20.8 million. The increase was attributed to budgeting new monies in the amount \$3,072,000 for the West Mesa water/sewer, \$200,000 for the Isleta sector plan, and an additional \$390,451 was budgeted for increased vehicle fuel cost. There were various budget adjustments for salary, contractual, and other operating expenditures that netted out the remaining balance difference.
- The Sheriff original expenditure budget increased \$1.3 million from \$22.9 million to \$24.2 million. The increase was attributed to higher than expected salary cost including sick leave and retirement sell back expenditures of \$262,364. Other increases included funding of Homeland security for \$176,301, Metropolitan Court (MCJCC) of \$119,975 and various only minor operating budget adjustments.
- The Metropolitan Detention Center original expenditure budget increased \$4.7 million from \$24.2 to \$28.9 million. The increase was attributed to higher operating cost at the jointly Albuquerque/Bernalillo County funded detention center due to a higher than expected inmate average daily population and increases medical care, workers compensation premiums and other operating cost.

### **TRAN Debt Service Fund**

The was an increase in the original budget for interest expense from \$898,904 to \$1,148,889 to account for higher than expected financing cost for the TRAN activities during the year.

## **Budgetary Highlights – Budget to Actual**

**General Fund.** General Fund revenues exceeded budgetary estimates by \$4,306,907 or by 2.7%. General Fund expenditures were less than budgetary estimates by \$29,325,523 or by 18.5% thus eliminating the need to draw upon existing fund balance. During the year the County incurred an excess of revenues over expenditures and other financing sources in the amount of \$18,436,774. Individual significant differences between the General Fund final budget and actual amounts are summarized as follows:

- Property tax revenue had a positive variance of \$1,872,786. The budget projections had projected a 95% collection rate of current property taxes within the County as of June 30, 2005. The actual collection rate was 95.72%. The significant reason for the positive variance was that delinquent taxes and interest on delinquent taxes exceeded projections by \$587,701 and \$815,792, respectively. Current property tax collections was \$377,820 greater than budget (less than one percent of budget).
- Investment income revenue had a positive variance of \$1,024,721. Although there was an improved local and national economy, the interest rates did not increase significantly. The positive variance was more attributed to a shift in the investment strategy of the County's Treasurers Office during the year that included shifting County investments from the State Investment Pool to other investment instruments that had a higher yield of return.
- Licenses and permits revenue had a positive variance of \$784,894. The variance is primarily attributed to an increase of \$281,117 in zoning/building fees and \$490,924 in construction permits that is reflective of the robust construction growth in 2005 and the double-digit growth in the housing construction industry.
- Finance and Administration expenditures had a positive variance of \$1,320,001. This variance is primarily attributed to lower insurance premiums and deductibles of \$366,213 and less than expected expenditures from Law Enforcement Officer liability claims in the amount of \$492,936, and lower than expected fleet replacement cost of \$323,249 for accidents.
- General County expenditures had a positive variance of \$9,212,497. A large part of the variance was attributed to \$2,993,021 in contingency salary. There was a positive variance of \$2,014,154 in the vehicle capital outlay line item. The County budgeted \$1,512,921 for the Human Resources, Payroll, and GIS systems of which \$1,256,002 had not been spent prior to year-end. There was a positive variance of \$769,757 in data processing equipment and software purchases. There was variance of \$719,822 in prior year carryover expenditures and a variance of \$720,100 in space contingency and building rentals. The remaining variance balance pertained to minor adjustments in various other operating categories.
- Bernalillo County Detention Center expenditure category has a positive variance of \$3,391,791. This variance is attributed to less than expected cost for food and commissary supplies in the amount of \$1,911,943 and less than expected carrying over operating cost of \$1,270,056 and other operating cost of \$209,792

- The Other expenditure category has a positive variance of \$7,634,765. This variance is attributed to the budgeting of \$6.5 million in new gross receipts tax monies for the new enterprise resources and financial management system and other capital smaller capital outlay items. The County expects to begin implementing the new system in FY06/07.
- Culture and recreation expenditure category has a positive variance of \$2,121,048. The variance is attributed in part to less cost associated with funding City of Albuquerque mandates in the amount of \$741,949. It is also attributed in part to \$484,200 in tennis court renovations that had not yet been spent and savings in other operational cost of \$894,899.

**TRAN Debt Service Fund**

There was no expenditure to budget variation for this fund.

**Tax Structure**

Taxable property valuations were \$10.091 billion in 2005, a \$458 million increase from the previous year. Current property tax collections are 95.71% of the levy, compared to 95.40% in the prior year. The property tax burden has shifted significantly to residential property since the current tax system was put in place in the mid-1980s. In 1986 non-residential property comprised 46% of the net taxable valuation, but today in the wake of several property revaluations, this figure has dropped to 28%. In the 2004 tax year, the property base (valuations) grew 4.75%.

Tax on revalued property is limited by the yield control formula. New construction represents a source of new tax revenue for the County. The State of New Mexico’s yield control adjustment limits the tax increase from existing property to five percent or the cost of living factor whichever is less. The mill levy rate for fiscal year 2005 was 8.200 for residential and 12.769 for nonresidential as compared to 8.154 and 12.747 respectively, in fiscal year 2004. Allocation of the mill rate for fiscal year 2005 (tax year 2004) and the prior year is based on the following:

Operational:	<u>2005</u>	<u>2004</u>
<b>Residential</b>	7.031	7.007
Non-residential	11.60	11.600
Debt Service	.830	.830
Open Space	.250	.250
Judgement	.089	.067

The County gross receipt tax rate is 5.5625% as of June 30, 2005. There was an increase of approximately 43.4% in gross receipts tax revenue in fiscal year 2005 compared to an increase of 5.6% percent in the previous year. The breakdown and sources of the gross receipt tax rate are as follows:

	<u>Tax Rate</u>	<u>Percent</u>
State General Fund	5.000	89.9%
County Wide	0.4375	7.9%
County Environmental (outside City limits)	0.125	2.2%

Additional information about revenues, tax rates, and levies is presented in the statistical section of this report.

### **Capital Asset and Debt Administration**

**Capital assets.** The County's investment in capital assets for its governmental and business type activities as of June 30, 2005 amounts to \$486,783,967 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress, and infrastructure. Each year the Board of County Commissioners updates the Capital Improvements Program (CIP) in order to plan, both long and short range financing for the County's capital projects. The CIP process provides for the development and submittal of requests for the annual and six-year requests for the Capital Improvements Program. A wide range of public facilities and equipment is considered in the CIP. There are statutory requirements that provide for design, construction, major repair, reconstruction or replacement of facilities such as buildings, jails, courthouses, roadways, bridges, parks, and some heavy equipment. The County can use several types of funding for the CIP that includes General Obligation Bonds, Revenue Bonds, Special Assessment District Bonds, Federal grants and State grants and appropriations.

Citizen involvement is solicited to determine and prioritize the needs of the County by holding public meetings. The Board of County Commissioners holds periodic advertised meetings at various locations within each Commission District to solicit public input and discuss the public's requests. Capital improvement projects selected by the Board and adopted in the CIP that are to be funded by General Obligation Bonds are placed on the ballot in the next General Election. The General Obligation Bond schedule is based on a two-year cycle and issuance is currently limited to \$16 million dollars by the Board of County Commissioners in order to maintain the same property tax rate. Other Capital improvement projects are included in the State of New Mexico Infrastructure Program for funding consideration. Major capital asset events during the current fiscal year included the following:

- Work on the Valley Utilities Project started in FY02 is progressing and is expected to take close to ten years to complete at a cost of nearly \$110 million. The project will provide municipal utilities to properties in the developed areas of the South and North Valleys of the County.
- The work to reconstruct Golf Course Road NW from Paradise Blvd. to Country Club Lane was started on July 12, 2004. The project was 90% as of the date of June 30, 2005 and was completed shortly thereafter.
- Engineering Design work has been completed on Phase II of Isleta Boulevard Reconstruction Project from Arenal Road south to Rio Bravo Boulevard. The road, once part of El Camino Real, remains an important social artery and economic lifeline to the community. On June 28, 2005, the County began the process to award the construction contract for Phase II.

- Construction of the South Valley Economic Development began on March 17, 2004 and was completed under budget on April 30, 2005. The facility is currently operational.

### County of Bernalillo's Capital Assets

(net of accumulated depreciation)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$121,202,983	\$120,666,798	\$ 435,352	\$ 426,500	\$121,638,335	\$ 121,093,298
Buildings	179,312,066	189,323,702	3,760,015	2,020,383	183,072,081	191,344,085
Machinery and equipment	10,717,076	12,311,761	1,089,514	32,322	11,806,590	12,344,083
Infrastructure	147,498,576	141,412,719	-	-	147,498,576	141,412,719
Leasehold improvements	2,346,013	2,458,173	-	-	2,346,013	2,458,173
Construction in progress	18,864,901	11,266,348	132,959	415,309	18,997,860	11,681,657
Art	1,424,512	1,424,512	-	-	1,424,512	1,424,512
Total	\$481,366,127	\$478,864,013	\$5,417,840	\$ 2,894,514	\$486,783,967	\$ 481,758,527

Additional information on the County's capital assets can be found in note IV-C. on pages 51-52 of this report.

**Debt administration.** The Bernalillo County Budget and Finance Division has analyzed the existing debt position of the County and has assessed the impact of future financing requirements on the County's ability to service additional debt. Review and analysis of the County's debt position is performed to provide a capital financing plan for infrastructure and other improvements. Long-term financing projections are linked with economic, demographic and financial resources expected to be available to repay the debt. Decisions regarding the use of debt are based upon a number of factors including, but not limited to, the long-term needs of the County and the amount of resources available to repay the debt. The debt policy is not expected to anticipate every future contingency in the County's capital program or future operational needs. Sufficient flexibility is required to enable County management to respond to unforeseen circumstances or new opportunities, when appropriate.

The County will maintain direct tax supported debt at a manageable level that takes into account economic factors including population, assessed valuation, and other current and future tax-supported essential needs. The decision to issue bonds, by either competitive or negotiated sale, is based upon which alternative will provide the County with lower costs. The Board of County Commissioners decides on an issue-by-issue basis which method of sale would be most appropriate. The County encourages the use of competitive sales for all issues unless circumstances dictate otherwise. Negotiated sales are considered if the sale is a complex financing structure. If a negotiated sale is anticipated, the Budget and Finance Division and County Bond Counsel establish a list of prequalified underwriters.

**General Obligation Bonds.** At the end of the current fiscal year, the County had total general obligation debt outstanding of \$82,479,000. The county has outstanding general obligation bonds for capital facilities including road improvements, storm drain improvements, library books, public safety improvements and park facility improvements. General obligation bonds are backed by the full faith and credit of the County government and are supported by ad valorem taxes. The tax rate depends

upon debt service schedules and property valuation and is set by the New Mexico Department of Finance and Administration. In fiscal year 2005 this tax is approximately \$.83 per \$1,000 of assessed taxable value in ad valorem taxes to support general obligation bonds, which constitute direct and general obligations of the County. These bonds have retirement dates ranging from August 1, 2010 through December 15, 2023. The ratio of net general obligation bonded debt to taxable valuation and the amount of bonded debt per capita are useful indicators of the County's debt position. The State's Constitution provides for a legal debt limit of four percent (4.0%) of taxable valuation. The ratio for the County is less than one percent (0.8%) of the \$10.102 billion taxable value of property within Bernalillo County, as of June 30, 2005. The County may currently issue up to an additional \$321.6 million of general obligation bonds. The net general bonded debt per capita is \$135.76. The lowest per capita amount in the last ten fiscal years was \$113.00 in fiscal year ended June 30, 2002. The County's ratings on uninsured general obligation bonds as of June 30, 2005 were:

- Moody's Investors Service, Inc. Aa1
- Standard & Poor's Rating Service AA+

At the end of the current fiscal year, the County had total revenue bond debt outstanding of \$187,340,000. The county has six outstanding revenue bonds: the 1996B series, the 1997 series, the 1998 refunding series, the 1999 series, the 2002 series, and the 2004 series. These bonds are payable from net pledged gross receipt tax revenues. Although the bonds are general obligations of the County, the County intends to pay the bonds solely from the net pledged revenues. The net revenue bonded debt per capita is \$321.20. The lowest per capita amount in the last nine fiscal years was \$217.95 in fiscal year end June 30, 1997. The pledged revenue coverage of gross receipts tax revenues to debt service requirements is 3.51. The lowest pledged revenue coverage in the last seven fiscal years was 2.19 in fiscal year 2002. These bonds have retirement dates ranging from November 15, 2011 through April 1, 2027.

**General Obligation and Revenue Bonds Outstanding**

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
General obligation bonds	\$ 82,479,000	\$ 83,915,000	\$ -	-
Revenue bonds	187,340,000	192,225,000	1,815,000	-
Total	<u>\$269,819,000</u>	<u>\$276,140,000</u>	<u>\$1,815,000</u>	<u>-</u>

The County's total bond debt decreased by \$4,506,000 during the current fiscal year. Additional information on the County's long-term debt can be found in note IV.F on pages 55-58 of this report and in the statistical section of this report.

## **Economic Factors and Next Year's Budgets and Rates**

The County's Board of Commissioners and Manager considered many factors when setting the fiscal year 2006 budget. According to forecasts by the University of New Mexico Bureau of Business and Economic Research (BBER), the outlook for the Albuquerque MSA economy remains pretty good, at least for the next couple of years. Boosted by a strong manufacturing sector, non-farm employment growth will increase from 2.1 percent rates of 2004 and 2005 to 2.4 percent in 2006 and 2.3 percent in 2007. The out years will see employment growth tail off a bit, falling to 1.2 percent by 2010, as manufacturing employment growth also tails off. Personal income growth will remain in the 5.0-6.0 percent range through 2007 and then tail off a bit as well. The unemployment rate is expected to hover in the neighborhood of 5.0 percent.

Strength during the next few years will come from several sectors. Manufacturing is expected to add about 3,000 jobs between now and 2007. Many of those will come in the Albuquerque area's budding aerospace industry [Eclipse, American Utilicraft, Aeromechanical Industries]. However, the aerospace industry no longer contains Aerospace Technology Group (ATG). ATG decided to set up shop in Colorado, their home state. In addition to the aerospace industry, there will be a number of other new manufacturing jobs in evidence. Tempur-Pedic, a manufacturer of mattresses and related products that the County was instrumental in bringing to New Mexico is building a factory on the western part of the County. Tempur-Pedic plans to employ 300 in 2006. Cabinet maker Merrilate Industries plans to build a factory in Los Lunas and employ 700 by 2007. Other firms adding jobs include Intel, Noteworthy Industries, Honeywell Defense Avionics, Cabot Superior MicroPowders, Team Specialty Products, MesoFuel, Aerospace Composite Structures, Stainless Motors, Intellite, Sennheiser New Mexico LLC, Phoenix Cabinets & Countertops, Albuquerque Tortilla, Advent Solar, Mechanical Solutions, K-Tech, Sacred Power, Solo Cup, and Heel Biotherapeutics.

Employment growth in government sector will remain in the neighborhood of 2.0 percent each year through 2010. Local government employment growth will average close to 2.3 percent annually, while state government grows closer to 2.0 percent annually. At the federal level, employment growth will be lethargic except for 2006, when growth will reach 3.1 percent, a result of a U.S. Forest Service (USFS) budget center, which will open earlier this year and a USFS personnel center slated to open later this year with another 350-400 jobs. The educational services/health care sector will be a third significant source of new jobs through the forecast period, but will experience declining growth. Employment growth will reach 4.5 percent this year but slip to near 2.5 percent in 2006 and remain there thereafter. Construction employment growth will follow a similar pattern, robust in 2005 (6.3 percent) but slowing in 2006 and leveling off. Housing construction growth in the City of Albuquerque will no more enjoy double-digit growth, or even single digit for that matter. Following the tiniest of gains in 2005, growth will turn negative in 2006 and remain negative throughout. Other sectors will contribute. Both professional, scientific and technical services and management and administration support will average at least 2.0 percent annual growth. Growth of 1.0-2.0 percent annually will be exhibited by retail trade, other services and transportation, warehousing and utilities.

## **Request for Information**

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller, Finance and Budget Division, One Civic Plaza, NW – 10<sup>th</sup> Floor, Albuquerque, New Mexico 87102.